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ACTION EB-07

INFO OCT-01 ARA-06 ISO-00 ERDA-05 AID-05 CEA-01 CIAE-00

CIEP-01 COME-00 DODE-00 FPC-01 H-02 INR-07 INT-05

L-03 NSAE-00 NSC-05 OMB-01 PM-04 USIA-06 SAM-01

OES-03 SP-02 SS-15 STR-04 TRSE-00 FEA-01 /086 W

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P 221914Z AUG 75

FM AMEMBASSY CARACAS

TO SECSTATE WASHDC PRIORITY 9906

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EO 11652 NA

TAGS: ENRG VE

SUBJ: OIL INDUSTRY STRUCTURE TO REMAIN BASICALLY INTACT
AFTER REVERSION.

BEGIN UNCLASSIFIED

1. SUMMARY. A NEWSPAPER ECONOMIC EDITOR, CONSIDERED BY THE EMBASSY AS HIGHLY RELIABLE, CONDUCTED AN INTERVIEW WITH MINES MINISTER VALENTIN HERNANDEZ ON THE SUBJECT OF THE OIL INDUSTRY STRUCTURE AFTER REVERSION. HERNANDEZ REPORTEDLY INDICATED THAT THE GOV HAS DECIDED TO MAINTAIN THE STATUS QUO TO THE EXTENT POSSIBLE. PETROLEOS DE VENEZUELA (PETROVEN) WILL BE ESTABLISHED TO ADMINISTER THE INDUSTRY AND CONCLUDE OIL SALES CONTRACTS. EXISTING OIL CONCESSIONAIRES WILL REMAIN INTACT, WITH THE POSSIBLE EXCEPTION OF THE SMALLEST COMPANIES. VENEZUELANES WILL BE APPOINTED TO FILL THE BOARD OF DIRECTORS OF EACH OPERATING COMPANY, AND THE COMPANIES WILL BE RENAMED AS UNITS UNDER PETROVEN. TWO YEAR TECHNICAL ASSISTANCE CONTRACTS WILL BE NEGOTIATED WITH THE FORMER CONCESSIONAIRES, WITH OPTIONS TO RENEW FOR TWO YEARS. THE GOV EXPECTS TO HAVE NO DIFFICULTY SELLING TWO MILLION BARRELS DAILY IN 1976 TO THE

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CUSTOMERS OF THE PRESENT CONCESSIONAIRES. END SUMMARY.

2. EL UNIVERSAL PRINTED ON AUG 21 SUMMARY OF AN EXCLUSIVE INTERVIEW ECONOMIC EDITOR C R CHAVEZ CONDUCTED WITH MINES MINISTER VALENTIN HERNANDEZ. CHAVEZ IS TRUSTED BY THE GOV AND IS FREQUENTLY THE FIRST TO BE GIVEN A STORY. HIS PREVIOUS ECONOMIC REPORTING HAS BEEN HIGHLY ACCURATE. THE BRIEF ARTICLE DESCRIBES ORGANIZATIONAL STRUCTURE OF THE OIL INDUSTRY AFTER REVERSION, THE METHOD THAT WILL BE EMPLOYED TO TRANSFER THE ASSETS, INTERNATIONAL MARKETING, AND POST-REVERSION OPERATIONAL CONTRACTS.

3. ORGANIZATIONAL STRUCTURE- THE GOV HAS ELECTED TO PERMIT THE OPERATING CONCESSIONAIRES TO REMAIN INTACT "UNTIL WE HAVE PROOF THAT THERE IS ANOTHER SYSTEM MORE CONVENIENT TO THE NATIONAL INTERETS", ACCORDING TO MINISTER HERNANDEZ. PETROLEOS DE VENEZUELA (PETROVEN) WILL HAVE OVERALL RESPONSIBILITY FOR DIRECTING AND ADMINSTRATING THE INDUSTRY. EACH OPERATING UNIT WILL HAVE A BOARD OF DIRECTORS COMPOSED ENTIRELY OF VENEZUELAN, BUT OTHER PERSONNEL INCLUDING FOREIGN STAFF WILL BE RETAINED. THE DECISION TO PERMIT MOST, IF NOT ALL, OF THE 20-ODD ENTITIES, INCLUDING THE STATE-OWNED VENEZUELAN PETROLEUM CORPORATION, TO CONTINUE AFTER REVERSION IS NOTED IN THE ARTICLE AS ANOTHER INSTANCE WHERE THE RECOMMENDATIONS OF THE PRESIDENTIAL REVERSION COMMISSION HAS BEEN IGNORED. THE COMMISSION REPORT RECOMMENDED A NATIONALIZED MODEL COMPOSED OF FOUR OR FIVE UNITS ORGANIZED BY FUNCTION (REFINING, MARKETING, ETC). THE DECISION TO LEAVE UNITS INTACT "FOR AT LEAST THREE OR FOUR YEARS" WAS MADE BY THE GOV TO INSURE CONTINUITY OF OPERATIONS AND TAKE ADVANTAGE OF THE FORMER CONCESSIONAIRES' EXPERIENCE. IN THE INTERVIEW, THE MINISTER ACKNOWLEDGED THAT SOME SMALL CONCESSIONAIRES MIGHT BE MERGED FOR EFFICIENCY SAKE AT THE TIME OF THE REVERSION.

4. POST-REVERSION OPERATING CONTRACTS - THE GOV HAS DECIDED TO NEGOTIATE TECHNICAL ASSISTANCE CONTRACTS WITH THE CONCESSIONAIRES WHICH WILL PROVIDE THAT ALL THE FOREIGN TECHNICIANS NOW IN VENEZUELA WILL REMAIN, AND ALLOW FOR ADDITIONAL PERSONNEL TO BE BROUGHT IN AS NEEDED. CON-

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TRACTS WILL HAVE AN INITIAL DURATION OF TWO YEARS WITH AN OPTION FOR A TWO YEAR EXTENSION. THEY WILL BE SUBJECT TO ANNUAL REVIEW TO DETERMINE EXTENT OF ASSIMILATION OF TECHNOLOGY BY VENEZUELAN TECHNICIANS.

5. INTERNATIONAL MARKETING - THE MINISTERS FORESEES THAT INTERNATIONAL MARKETING OF OIL WILL CONTINUE IN THE SAME MANNER AS BEFORE, WITH THE ONE EXCEPTION THAT SALES

CONTRACTS WILL BE CONCLUDED BETWEEN PETROVEN AND THE BUYERS AFTER REVERSION. MINISTER HERNANDEZ INDICATED THAT CONVERSATIONS WITH THE OIL COMPANIES HAVE NOT BEEN "EASY" ON THIS SUBJECT, NOR ON THE QUESTION OF TECHNICAL ASSISTANCE CONTRACTS. HERNANDEZ ANTICIPATES THAT AT THE BEGINNING APPROXIMATELY 80 PERCENT OF OIL EXPORTS WILL CONTINUE TO BE SOLD OF F.O.B. VENEZUELAN PORT TERMS. HE WOULD LIKE TO INCREASE THE PERCENTAGE SOLD UNDER C.I.F. CONTRACT, BUT IS REALISTIC THAT THIS WILL BE DIFFICULT TO ACHIEVE. THE MINISTER ALSO ANTICIPATES THAT THERE WILL BE NO DIFFICULTY ARRANGING THE SALE OF TWO MILLION BARRELS DAILY TO THE CUSTOMERS OF THE PRESENT CONCESSIONAIRES.

6. TRANSFER OF ASSETS - IN ORDER TO REDUCE TO A MINIMUM THE PROBLEMS AND COMPLICATIONS OF REVERSION, THE GOV PROPOSES TO "BUY" THE ASSETS OF THE COMPANIES (INCLUDING THE PERSONNEL). THE PURCHASE PRICE WILL BE EQUIVALENT TO THE AMOUNT OF INDEMNIZATION WHICH THE GOV DETERMINES EACH CONCESSIONAIRE WILL RECEIVE. CITING THE TWO LARGEST OIL COMPANIES AS EXAMPLES, IT IS ENVISIONED THAT PETROVEN WILL ACQUIRE CREOLE AND RENAME IT LAGOVEN, WHILE SHELL WILL GO THROUGH THE SAME PROCESS AND EMERGE AS MARAVEN.

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7. COMMENT- THE EMBASSY REPORTED PREVIOUSLY (CARACAS 1973, 2/21/75) THAT THE GOV MIGHT ADOPT TACTIC OF "BUYING" ONGOING OPERATIONS OF THE CONCESSIONAIRES. THE PURPOSE OF THIS ARRANGEMENT IS TO ATTEMPT TO ESTABLISH A LEGAL BASIS FOR AVOIDING THE IMMEDIATE PAYMENT OF WORKER'S BENEFITS AT THE TIME OF NATIONALIZATION. THE GOV FEARS THAT OIL WORKERS WILL FOLLOW THE PRIOR EXAMPLE OF THE IRON ORE WORKERS AND PRESS FOR PAYMENT OF BENEFITS, USING AS AN ARGUMENT THAT LIMITED OFFICIAL USE

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THE OIL COMPANIES HAVE CEASED TO EXIST. THE GOV HOPES TO COUNTER THIS ARGUMENT BY POINTING OUT THAT THERE HAS BEEN NO RUPTURE IN THE COMPANY OPERATIONS THAT WOULD WARRANT PAYMENT OF BENEFITS. END COMMENT.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: PETROLEUM INDUSTRY, NATIONALIZATION, PRESS CONFERENCES, ORGANIZATION & MANAGEMENT
Control Number: n/a
Copy: SINGLE
Draft Date: 22 AUG 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: GolinoFR
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975CARACA08778
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D750291-0876
From: CARACAS
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19750824/aaaaaula.tel
Line Count: 160
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EB
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: GolinoFR
Review Comment: n/a
Review Content Flags:
Review Date: 15 SEP 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <15 SEP 2003 by CunninFX>; APPROVED <09 OCT 2003 by GolinoFR>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
06 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: OIL INDUSTRY STRUCTURE TO REMAIN BASICALLY INTACT AFTER REVERSION.
TAGS: ENRG, VE, PETROLEOS DE VENEZUELA (PETROVEN), PETROVEN-PETROLEOS DE VENEZUELA, (HERNANDEZ, VALENTIN), (CHAVEZ, C R)
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006